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March 14, 2005

Honorable Pat Miller, Chairman  
Tennessee Regulatory Authority  
ATTN: Sharla Dillon, Dockets  
460 James Robertson Parkway  
Nashville, TN 37243-5015

**Via Hand Delivery**

Re: Petition of Citizens Telecommunications Company of Tennessee, LLC for  
Exemption Under T.C.A. §65-5-208(c); Docket No. 03-00211

Dear Sharla

Enclosed for filing in the above-referenced matter, please find the original and 14 copies of the rebuttal testimony of Levoy Knowles on behalf of Ben Lomand Communications, Inc. Please return one date stamped copy to the courier making this delivery. Thank you for your assistance.

Sincerely,



H. LaDon Baltimore

LDB/dcg  
Enclosures  
cc: Guilford Thornton, Esq

BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE

IN RE	)	
	)	
PETITION OF CITIZENS	)	
TELECOMMUNICATIONS	)	
COMPANY OF TENNESSEE, LLC,	)	DOCKET NO 03-00211
d/b/a FRONTIER COMMUNICATIONS	)	
OF TENNESSEE FOR EXEMPTION	)	
UNDER T.C.A. §65-5-208(c)	)	

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REBUTTAL TESTIMONY OF BEN LOMAND COMMUNICATIONS, INC.  
LEVOY KNOWLES, CPA ON BEHALF OF BEN LOMAND  
COMMUNICATIONS, INC  
March 14, 2005

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Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is Levoy Knowles I am Executive Vice President for Ben Lomand Communications, Inc. My business address is 311 N. Chancery Street, McMinnville, TN 37111-0670.

Q. PLEASE DESCRIBE YOUR POSITION AT BEN LOMAND COMMUNICATIONS, INC.

A As Executive Vice President, I am responsible for the oversight of the day to day operations of BLC. This includes business development, budgeting, and approval and oversight of network upgrades.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A I am a 1976 graduate of Tennessee Technological University. I received my Bachelor of Science Degree in Business Management with an emphasis in Accounting I later earned my CPA certificate in 1980 after working for three years in industry and another three years with a local public accounting firm I joined Ben Lomand Telephone Cooperative on December 1, 1981, as an accountant. Over the next few years, I was promoted to Assistant Manager and then General Manager on January 1, 1989. My title was later changed to CEO in 1999. Ben Lomand Communications is a wholly owned subsidiary of the Co-op and was formed in 1993 to provide long distance service. It was later expanded to become a CLEC in 1998 after the passage of the Telecommunications Act of 1996 allowed competition. I have served as the Executive Vice President of BLC since its inception. I participate in several professional and industry associations. I am a member of the AICPA, the Tennessee Society of CPA's, and the Upper Cumberland Chapter of CPA's. I currently serve on the board of directors of the United States Telecom Association (USTA), the Rural Independent Competitive Alliance (RICA) and

have previously served on the Board and Past President of the Tennessee Telecom Association.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to rebut the testimony provided by Citizens in its direct testimony of J. Michael Swatts and Randall J Brockmann.

Q. PLEASE STATE YOUR POSITION WITH RESPECT TO THE PETITION FOR EXEMPTION FROM THE REQUIREMENT OF THE PRICE FLOOR SET FORTH IN T.C.A. §65-5-108(C) (FORMERLY T.C.A. §65-5-208(C)).

A. I feel that Citizens Telecommunications Company of Tennessee, LLC d/b/a Frontier Communications of Tennessee request for exemption from the price floor should be denied. If the petition is approved, it would unleash the extensive coffers of Citizens/ Frontier and would allow unfair competition in the Sparta and McMinnville markets Citizens is one of the largest telecom companies in the nation and would have unlimited resources to compete with a much smaller company such as Ben Lomand Communications, Inc. I feel Citizens is already pricing below their cost by reducing charges by more than 74% in at least one case. Typical reductions range from 42% to 66% off the normal tariff rates. If Citizens rates are just and fair under their normal tariff that has been approved by the Tennessee Regulatory Authority ("Authority") or ("TRA"), then how can Citizens reduce rates from a tariff rate of \$31.25 to \$8.00 (74%) and still be above the price floor. I feel if the \$8.00 rate is still above cost, then their normal tariff rate is excessive.

To summarize, Citizens Telecommunications Company of Tennessee, LLC d/b/a Frontier Communications of Tennessee's ("Frontier") position in this matter is that since Frontier cannot compete fairly, Frontier wants to compete unfairly The bottom line is that if rates are below cost, someone has to subsidize the operation The question for the TRA is: If the TRA wants to unleash the extensive coffers of Citizens/Frontier to compete

against a much smaller Ben Lomand Communications, Inc. and is this really in the public's interest?

Q. MR. SWATTS ASSERTS THAT THE PUBLIC INTEREST WILL BE SERVED BY THE REQUESTED EXEMPTION. DO YOU AGREE WITH THAT ASSERTION? (SWATTS'S TESTIMONY, PAGES 4-6).

A. No. If Citizens rates are allowed to be priced below costs, then someone has to subsidize it. In this case, it could be other Citizens divisions within the state of Tennessee or other services within the Sparta and McMinnville markets. According to Mr. Swatts's testimony, they intend on making up the shortfall by selling more vertical services that would be sold above cost. But according to ads recently displayed in the local newspapers (see attached Exhibit ) they are also discounting other features as well as the local rates. In one ad, Citizens offers the choice of a free modem or a discount on a wireless router if their DSL service is taken. In another ad, 16 calling features are being offered along with a local access line and 300 long distance minutes for \$19.95. It seems apparent to me that reductions are also being made in vertical services in addition to those reductions for local service. Since vertical services are being discounted, it would indicate to me that the shortfall would have to be made up from other Tennessee consumers (see attached Exhibit 2, a proposal to offer lower prices on all services). I don't feel this is in the public's interest to take money from one area and lower costs below the competition in another area in order to salvage market share. Frontier is already the low cost provider even before being given permission to go below the price floor. Such subsidization of services could drive Ben Lomand out of the market, thus leaving consumers with only one choice for telecommunications services. Furthermore, such low prices and less revenue, whether subsidization or no subsidization is involved, means that service, investment, capital improvements, etc. will suffer, which in turn will

lower service and harm the consumer. It is highly unlikely that there will be enough margins in such prices to offer the service the consumer needs and expects

Frontier fails to make a case that the public interest will be served by the requested exemption. Instead of making a case that the consumer benefits, Frontier spends considerable time making the case that it needs lower costs and that one factor in such lower costs is a "cost study." Frontier makes more of a case that it should be relieved from the cost incurred in making a cost study filing with the TRA instead of making a case that the exemption is in the public interest. (Swatts's testimony, pages 6-7) The fact that Frontier is losing business is not a basis for exemption from the price floor requirement.

Q. DO YOU AGREE WITH FRONTIER'S ASSERTION THAT GRANTING THE RELIEF REQUESTED WOULD NOT RESULT IN PREDATORY PRICING?

A. No. As I stated earlier, the bottom line is that if Frontier sells below cost, then that service has to be subsidized elsewhere. Here, Frontier admits that it will make up such pricing in its vertical or advanced services. It is reasonable to conclude that Frontier will price far below that which Ben Lomand can match. Frontier will make up the difference, as it has admitted, from the sale of vertical or advance services and, I submit, subsidization from other affiliates of Frontier. There is a high likelihood that Ben Lomand could be driven from these markets due to predatory pricing.

I contend that Frontier is already pricing below cost. So, if they are given authority to lower their price even further, then how low will they go in order to gain market share? Will they price local service at \$5.00, \$2.00 or give it away free in order to sell vertical services? Frontier has already reduced their price from 42% - 74% and they admit they are still losing customers. So, my question is how far will the Authority allow them to reduce their rates before the idea of predatory pricing or at least anti-competitive practices becomes an issue?

Q. FRONTIER STATES THAT THE TRA HAS MADE OTHER RULINGS WITH RESPECT TO THE COMPETITIVE ENVIRONMENT IN MCMINNVILLE AND SPARTA WHICH SHOULD BE PRECEDENT FOR THE RELIEF REQUESTED IN THIS DOCKET. DO YOU AGREE? (SWATTS'S TESTIMONY, PAGES 9-10).

A No. The TRA cases cited by Frontier for precedent are for specific, requested services, not for all services without limit. Some were for special promotions and others were for a specific service.

Q FRONTIER HAS STATED THAT THE EXEMPTION SHOULD BE GRANTED INSTEAD OF THE CONTINUED USE OF PROMOTIONAL OFFERINGS. DO YOU AGREE THAT THIS IS A GROUND FOR EXEMPTION FROM THE PRICE FLOOR? (SWATTS'S TESTIMONY, PAGES 10-11)

A No. Although promotional offerings or offering bundles of products and services may be more inefficient than Frontier prefers, it is not a ground for granting an exemption from the statutory price floor requirement. The statutory test is "public interest," not what is efficient or convenient for a telecommunications service provider.

Q. MR. SWATTS STATES THAT FRONTIER PROPOSES TO MAKE UP LOST REVENUES BY PRICING SERVICES ABOVE COST. DO YOU HAVE ANY COMMENTS ON HIS STATEMENT? (SWATTS'S TESTIMONY, PAGES 11-12).

A In Mr. Swatts's testimony, Frontier admits that it will make up for lost revenues by charging for enhanced services such as DSL, internet, voice mail, long distance, and many other demand services that are priced above cost. It is possible that Frontier will also make up lost revenues by cross-subsidization. Throughout the testimony, Frontier states that it will not cross-subsidize nor engage in predatory pricing, but no guarantees are set forth.

With this admission of covering losses by charging more for other services, Frontier gives an indication of what is possible in the future. If Frontier decides to price

its "gateway" service at a minimum or for free, then it will make up that difference with other services.

But as I have previously stated, current pricing schemes include large reductions for vertical services as well as regulated services. If "gateway" service is given away in order to gain market share, it could drive Ben Lomand Communications from the market. Prices would then be increased to make up for the earnings shortfall during the competitive period.

Q. FRONTIER STATES THAT IT HAS LOST BUSINESS TO BEN LOMAND. PLEASE COMMENT ON THAT ASSERTION. (SWATTS'S TESTIMONY, PAGES 12-13).

A. I agree that Frontier has lost business to Ben Lomand, but disagree on the reasons why and the affect of that. The fact that Frontier has lost business to Ben Lomand is not a ground for the TRA to grant exemption from the price floor. The ground for exemption from the price floor is that it is "in the public interest," not because a competitor loses business. If this were the case, every time a telecommunications service provider loses customers, it could request exemption from the price floor.

What Frontier omits is any reason for its loss of customers other than the fact that it operates under the price floor requirement. Frontier completely omits the fact that Ben Lomand is beating them in the marketplace with service, product offerings, and occasionally price. But price is not the only reason Frontier is losing customers as it implies. Ben Lomand's prices are sometimes equal to, sometimes below, and sometimes above those of Frontier. Ben Lomand prides itself in its service to its customers and would submit that that is why Frontier is losing customers, not because of the statutory price floor requirement.

Q. IN HIS TESTIMONY RANDALL J. BROCKMANN DISCUSSES THE FACT THAT FILING COST STUDIES WITH THE TRA IS COSTLY TO CITIZENS. PLEASE COMMENT ON HIS TESTIMONY. (BROCKMANN TESTIMONY, PAGES 4 - 6).



A I do not dispute what Mr. Brockmann says is the cost per cost study of Citizen's to prepare and file a compliance service cost study. However, this is not relevant to the statute. The statute requires that for exemption from the price floor, the exemption must be "shown to be in the public interest," not that the incumbent LEC has the expense of preparing cost studies.

Q. MR. BROCKMANN SPENT A GOOD DEAL OF TIME OPINING AS TO THE COST OF BASIC BUSINESS AND VERSALINE CENTREX SERVICE AND TO THE TSLRIC AND TELRIC COSTING METHODOLOGIES. IS THAT DISCUSSION RELEVANT TO THIS ISSUE? (BROCKMANN TESTIMONY, PAGES 6 - 14).

A No. Mr. Brockmann's discussion of the cost for basic business (B1) service and the Versaline Centrex service are not relevant to this issue. Ben Lomand takes no position as to whether such exhibits are accurate, and neither admits nor denies such figures. The issue in this docket is not what Frontier's cost is, but whether an exemption from the price floor is in the public interest.

Ben Lomand defers to the TRA regarding the price floor analysis, and would request that if the exemption is granted, a second part of this docket be held to determine what that price floor is, or a separate determination to be made by the TRA as to what the price floor is. This raises the question, if a price floor exemption is granted, how far below cost would Frontier or any other incumbent LEC be allowed to go? This leads to still another question: If an incumbent LEC is going below the price floor, does this automatically establish a second price floor which the ILEC may not go below, i.e., price floor minus X = new price floor?

Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING THIS PETITION?

A. Yes Exempting an ILEC from the requirements of the price is more far-reaching than this one case. There have been no factors or guidelines necessary to establish what relief is to be granted in such a docket. If this petition is granted, then others will be in line to

request exemption from the price floor. The issues involved in this matter are of such importance that they should not be decided on a case-by-case basis, but as the result of a careful, thought out procedure under guidelines, rules, and regulations adopted by the TRA. Though not an attorney, I have been told the statute says that in considering any exemption to the price floor, the TRA, as appropriate, shall also adopt other rules or issue orders to prohibit cross-subsidization, preferences to competitive services or affiliated entities, predatory pricing, price squeezing, price discrimination, tying arrangements, or other anti-competitive practices. These issues should be addressed in a rule making proceeding, and not in a case-by-case docket. To date, the TRA has not defined exactly what the price floor is.

To summarize, Frontier's petition and testimony say why relief from a price floor is good for Frontier, but it does not establish why it is in the public interest. The fact that Frontier is losing business is not a reason to grant an exemption from the price floor. If so, then every ILEC in the State of Tennessee should be granted an exemption from the price floor.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes



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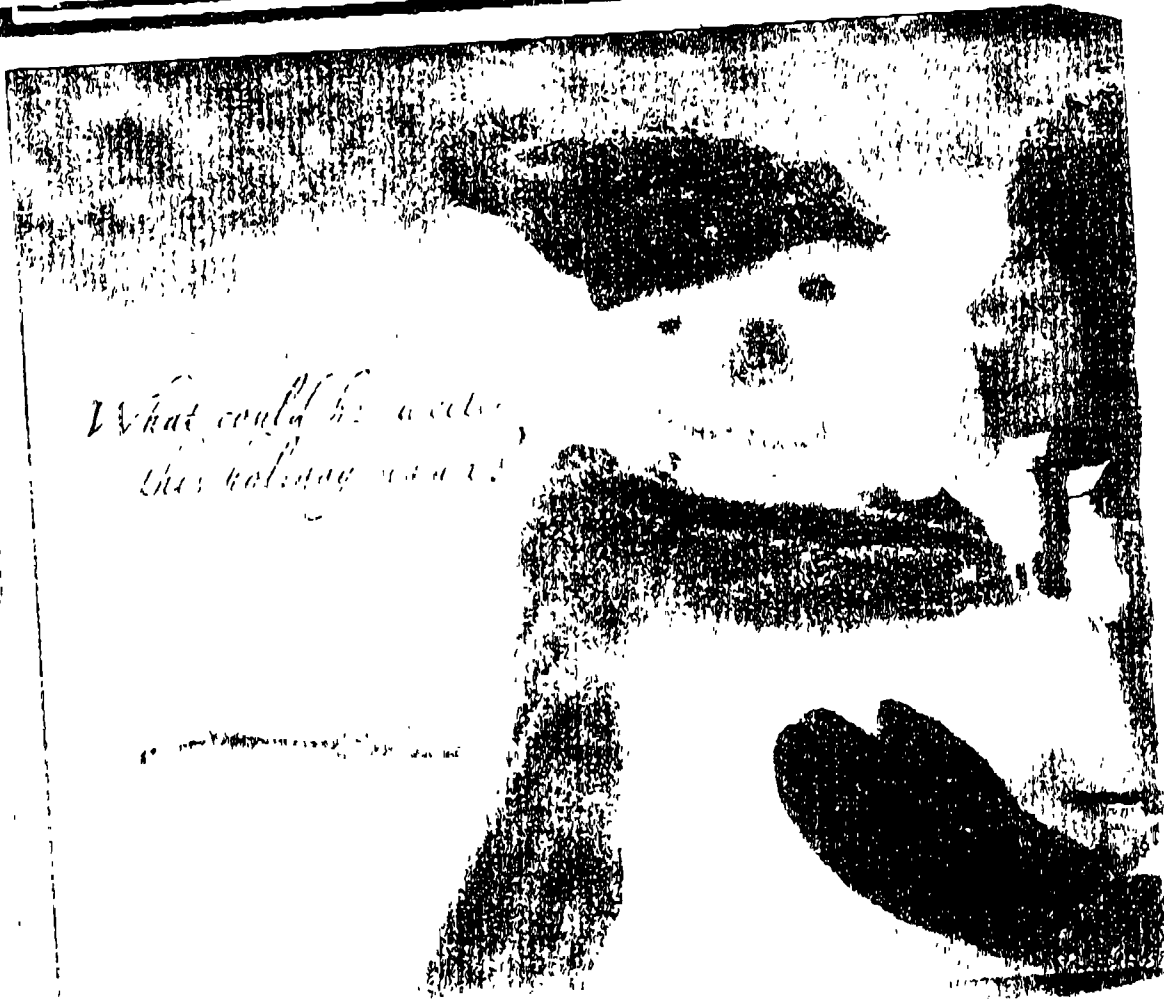
\*\* Rates based on Ben Lomand Web Site dated 8/31/03

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**EXHIBIT**

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